

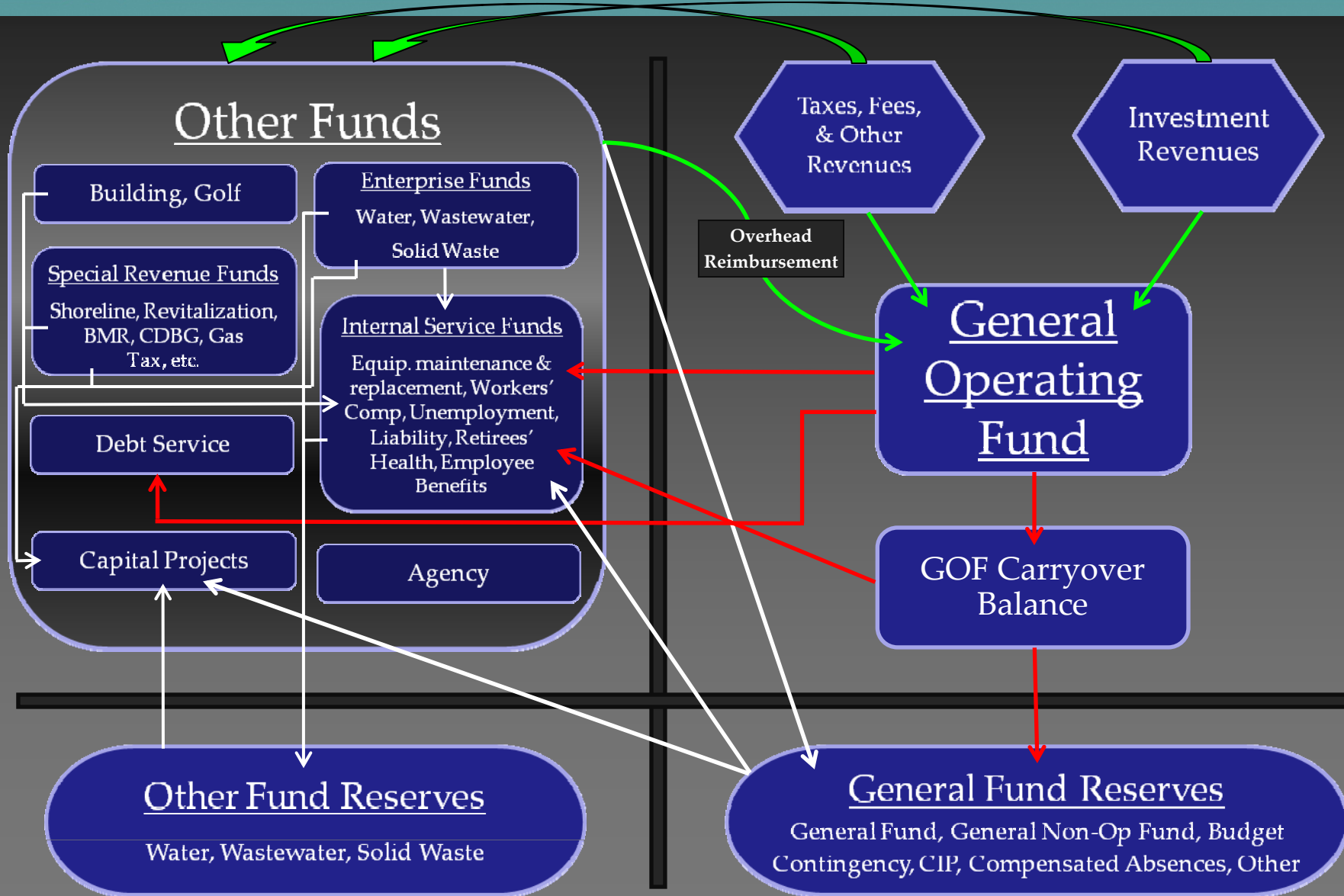


# BUDGET OVERVIEW

Mountain View City Council Study Session  
May 5, 2009

- Overview of City's Budget and Fund Types
- Reserves
- Investment Portfolio
- Others?

# Mountain View Fund Flow





# Reserves

[see Staff Report Attachment # 2]

- Established by Council Policy A-11
- Purposes:
  - Future obligations (e.g., retirees' health, compensated absences)
  - Unknown risks/emergencies
  - Rate stabilization
  - Saving/holding funds for future project/purpose
  - Unforeseen, necessary expenditures
  - Cash flow
  - Investment income



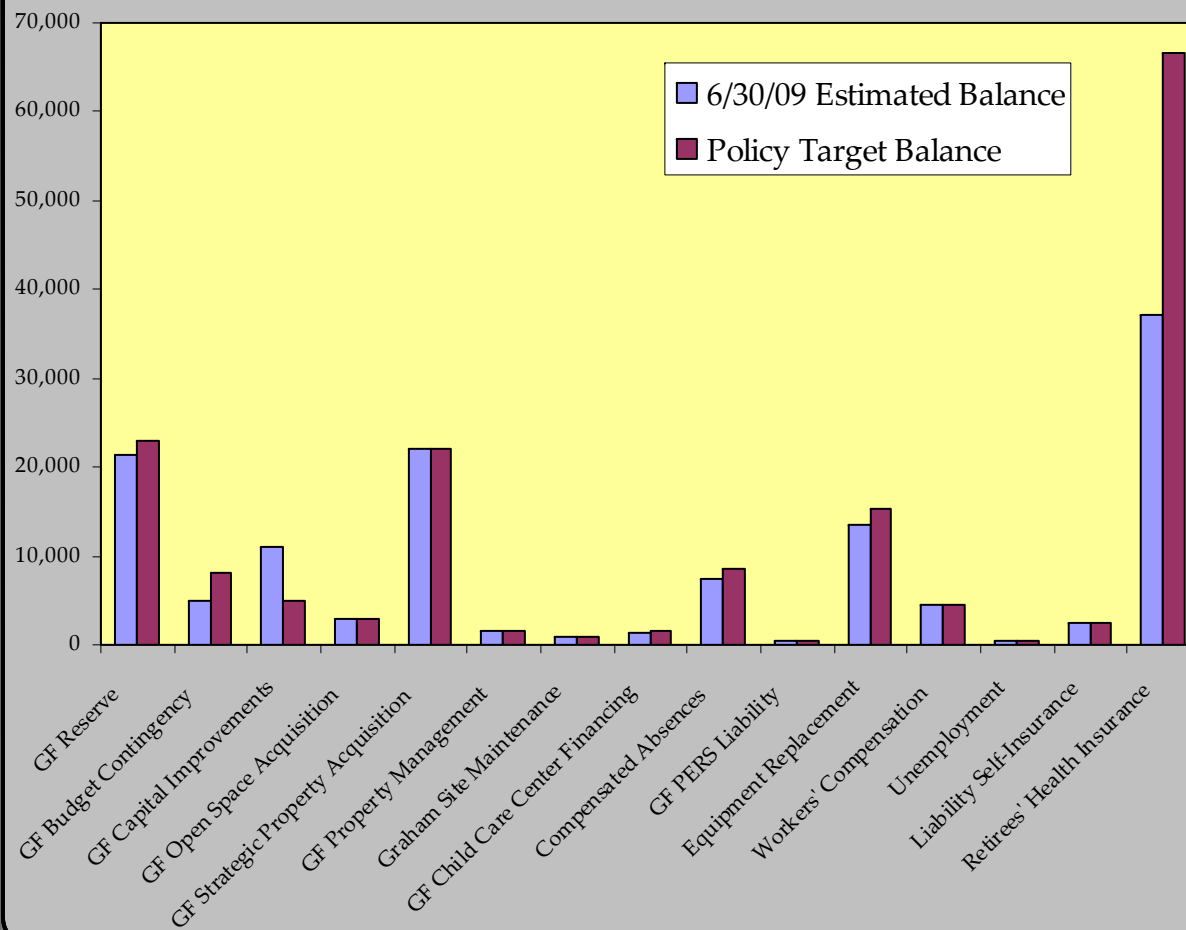
## Reserves (cont.)

- Most are tied to specific funds/purposes
- Some funded by numerous funds for common obligations (e.g., Workers' Comp., Liability, Retirees' Health, etc.)
- Most reserves at policy level (after recommendations) except
  - Child Care Financing
  - Equipment Replacement
  - Retirees' Health



## Reserves (cont.)

Estimated Reserve Balances to Policy Target Balances





## Reserves (cont.)

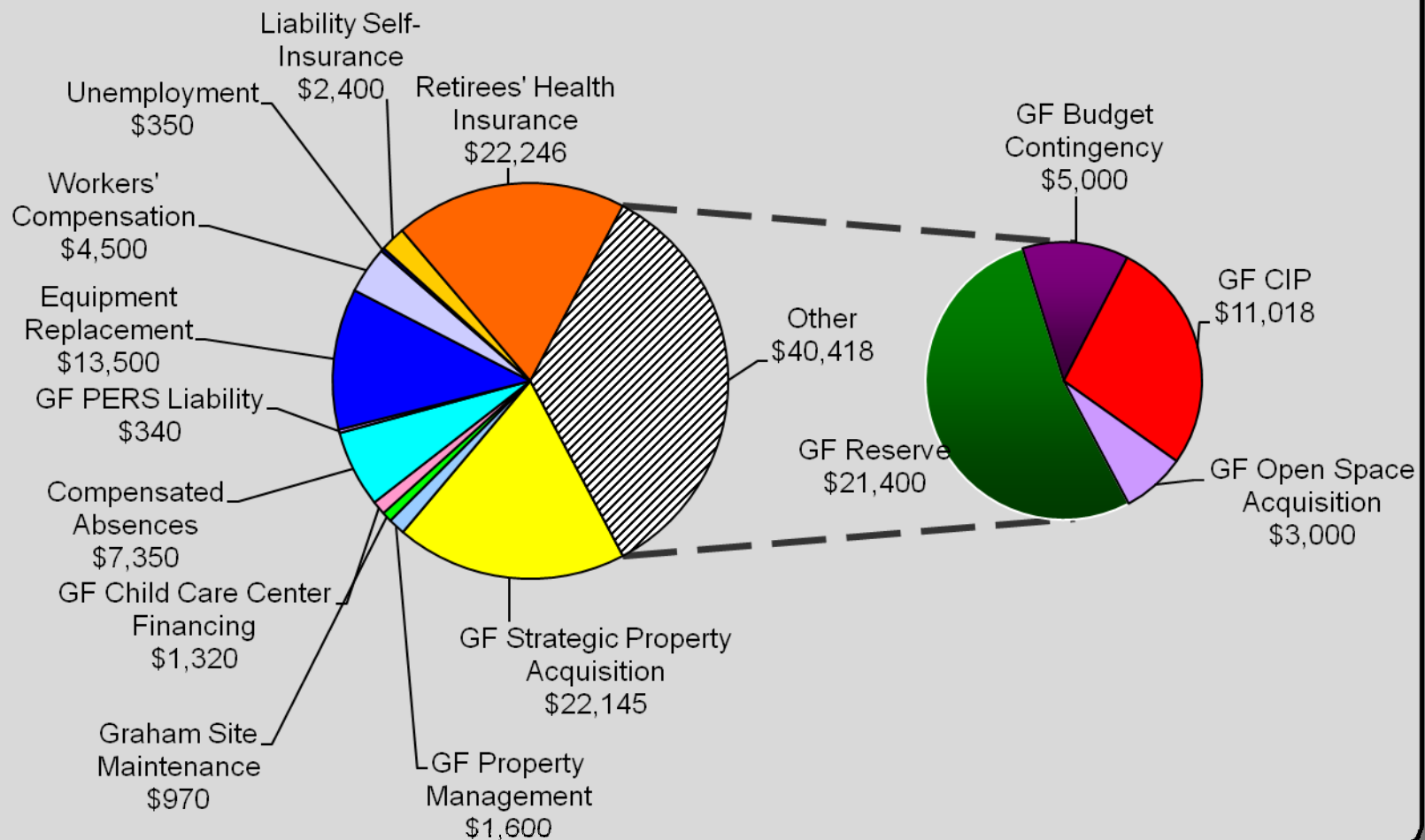
- Of General Fund Reserves, four are not committed, but are designated for a specific purpose:
  - General Fund Reserve
  - Budget Contingency Reserve
  - Capital Improvement Reserve
  - Open Space Acquisition Reserve



## Reserves (cont.)

### Estimated Reserve Balances - June 30, 2009

Total: \$117,139 (amounts in thousands)







## Reserves (cont.)

- General Fund Reserve:

<u>Policy Level</u>	<u>Current Level</u>
25% General Op. Fund	\$22.1 million

General Purposes: - mid-year contingencies  
- emergencies (natural, financial, etc.)

- CIP Reserve:

<u>Policy Level</u>	<u>Current Level</u>
\$5 Million	\$11.0 million

General Purposes: - mid-year capital expenses  
- infrastructure emergencies



- Budget Contingency Reserve:

<u>Policy Level</u>	<u>Current Level</u>
when funding available	\$5.0 million

General Purpose: - economic uncertainties

- Open Space Acquisition Reserve:

<u>Policy Level</u>	<u>Current Level</u>
when funding available	\$3.0 million

General Purpose: - fund the acquisition of new open space



# Investment Portfolio

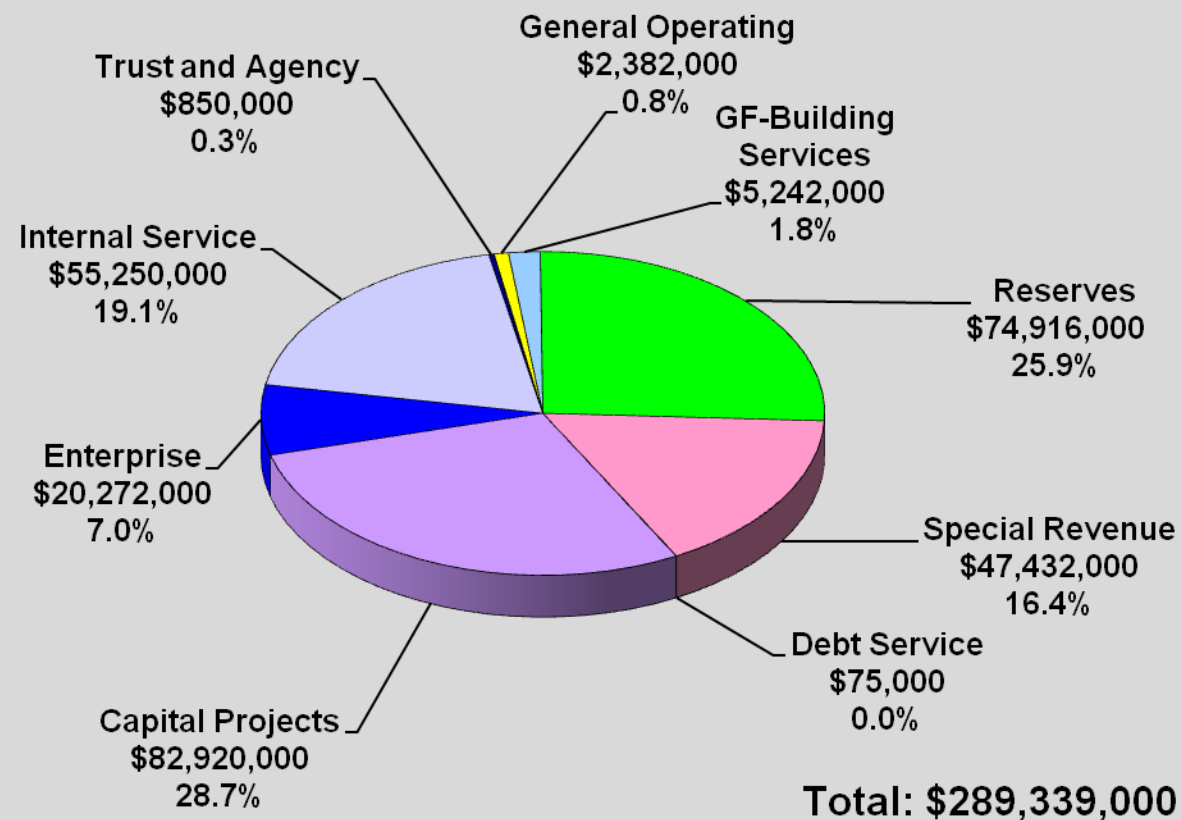
[see Staff Report Attachment # 8]

- All cash and investment resources of the City pooled together
- Investments are restricted by Government Code and City's Investment Policy B-2
- Investment policy objectives:
  - Safety of principal
  - Meet cash flow needs
  - Market-rate return



## Investment Portfolio (cont.)

### Distribution of Portfolio Assets - By Fund Type As of March 31, 2009





# Background Papers

## Attachments to Budget Overview Report:

1. Overview of City's Budget and Fund Types
2. Reserves
3. Workers' Compensation Self-Insurance Reserve
4. Liability Self-Insurance Reserve
5. Equipment Replacement Reserve
6. Compensated Absence Reserve
7. Retirees' Health Insurance Program
8. Investment Portfolio
9. General Fund Carryover Balance
10. Structural Deficits
11. Revenue Alternatives
12. Cost Recovery/Fees for Service
13. Budgeting for Salaries and Benefits
14. PERS Volatility
15. Limited-Period Expenditures



# Workers' Compensation

[see Staff Report Attachment # 3]

- Purpose is to fund the obligations for employees injured on the job
- Established by Council in 1975
- Cost effective compared to insurance
- Reasons to be self-insured
  - Cost effective
  - Ability to better manage claims
  - Provide better services to employees
- Also fund Public Safety employee salaries out on workers' compensation
- Policy is liability plus \$1.0 million



# Liability Self-Insurance

[see Staff Report Attachment # 4]

- Purpose is to fund the liability exposures of the City
- Established by Council in 1980
- Self-Insured for first \$1.0 million
- Member of risk pool ACCEL
  - Medium size California cities
  - Pool risk exposure next \$4.0 million
  - Purchase additional \$55.0 million
- Policy is liability plus \$2.0 million



# Equipment Replacement

[see Staff Report Attachment # 5]

- Purpose to fund the replacement of major equipment
- Established by Council in FY 1991-92
- Level annual contributions
  - Based on cost or estimated replacement cost
  - Estimated life of equipment
- Major categories of Equipment
  - Computers
  - Vehicles
  - Police and Fire Radios





# Compensated Absences

[see Staff Report Attachment # 6]

- Purpose is to fund the liability for accrued vacation, comp time and sick leave
- Established in FY 1991-92
- All funds with employees but Enterprise and Internal Service funds contribute
- Calculated based on GASB requirements
- Caps on Vacation and Sick Leave, depending on years of service



# Retirees' Health Insurance

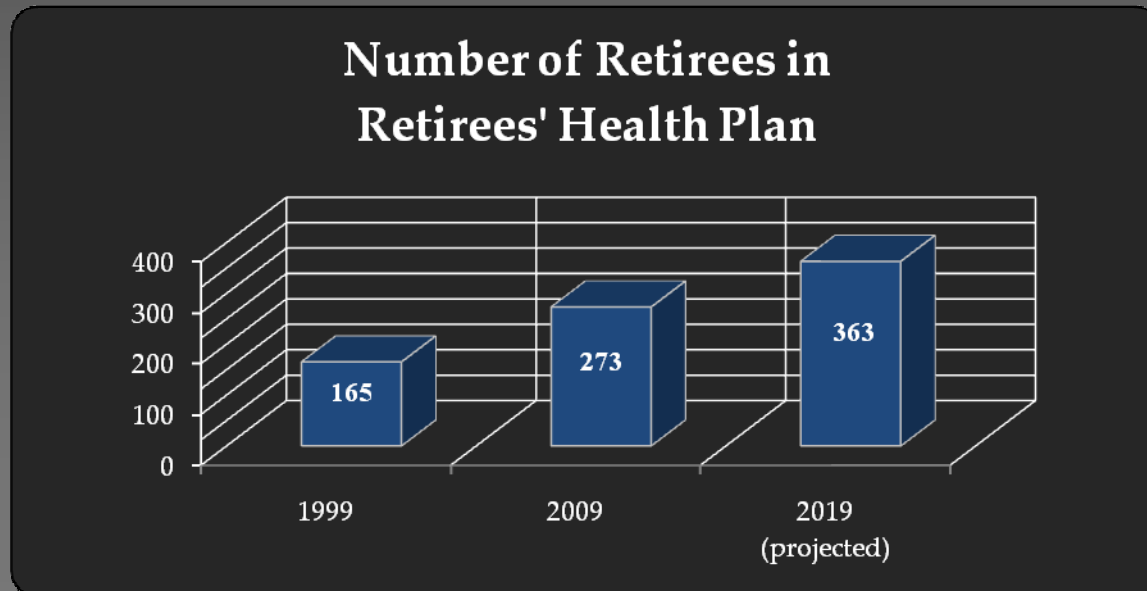
[see Staff Report Attachment # 7]

- Purpose to fund the obligations of health benefits for retirees
- Established in FY 1997-98
- Required per GASB Statement No. 45 effective for FY 2007-08
- Valuation required to be updated every two years
- Two components of Annual Required Contribution
  - Normal Costs
  - Amortization of Unfunded Actuarial Accrued Liability (UAAL)



## Retirees' Health Ins. (cont.)

- Actuarial Accrued Liability:
  - As of 2007: \$43.8 Million
  - As of 2009: \$66.6 Million
  - \$22.8 Million increase
- \$37.2 Million accumulated by June 2009
- Obligation continues to grow:





# GF Carryover Balance

[see Staff Report Attachment # 9]

- Funds remaining/“surplus” in the General Fund at the end of the Fiscal Year

$$\text{Operating Revenues (+)} + \text{Operating Expenditures (-)} + \text{One-time Revenues and Expen. Savings} = \text{Carryover Balance}$$

- Uses:
  - Fund annual obligations not included in the operating budget:
    - Retirees' Health Insurance
    - Equipment Replacement
    - Compensated Absences
  - Replenish reserves
  - Fund “limited period” expenditures
  - Supplemental funding for equipment replacement/acquisition



## GF Carryover Balance (cont.)

- Underexpenditure range: \$1.6-\$4.7 million
- Budget savings assumption of \$2.6 million for FY 2009-10
  - Used to offset building full Retirees' Health UAAL and Equipment Replacement obligations into the operating budget (\$2.3 million)
- Greater risk of budget going out of balance during the fiscal year



# Structural Deficits

[see Staff Report Attachment # 10]

- Structurally Balanced Budget: Ongoing revenues and ongoing expenditures in balance.
- Technically Balanced Budget: Using temporary measures to bridge a budgetary gap.



## Structural Deficits (cont.)

Strategies that can resolve a structural deficit:

- Increase ongoing revenues
- Decrease ongoing expenditures:
  - Staffing
  - Service levels
  - Alternative service delivery models
- Maintain expenditure growth below revenue growth



## Structural Deficits (cont.)

- Strategies that do not resolve, but can temporarily address a budget shortfall:
  - Use of temporary revenues, reserves, or grants
  - Furloughs, temporary compensation reductions, or hiring freezes
- Temporary measures help to:
  - Buy time to develop permanent strategies and transition to permanent solutions
  - Compensate for temporary conditions that will self correct

Risk: A structural deficit growing over time while temporary resources (reserves) are depleted.





# Revenue Alternatives

[see Staff Report Attachment # 11]

- Each revenue source is unique and often restricted in use
- General Fund has the most diverse group of revenues
- Range of General Fund revenue sources:
  - sales tax
  - property tax
  - fees for services
  - use of money and property:
    - investment income
    - lease of city owned land
- Ability to grow General Fund revenues is limited :
  - new or enhanced tax revenue requires voter approval
  - limited undeveloped land



# Revenue Alternatives

- Primary tools available to “grow revenues” given existing restrictions:
  - Economic development efforts
  - Increased cost recovery for fees for services
  - Appropriate allocation of GOF costs for services provided to other funds
  - Use of City assets
- Have and continue to employ these tools aggressively
- In some cases there are limitations



# Cost Recovery/Fee for Service

[see Staff Report Attachment # 12]

- General Operating Fund services:
  - No fee support/cost recovery
  - Partial fee support/cost recovery
  - Full fee support/cost recovery
- “Basic Services” vs. “Special Services”:
  - Type of service
  - Population served
- Competition for general purpose revenues
- Required vs. Optional Subsidies
  - Type of service
  - Customers served
- Policy decision: How to use limited resources for the “greater good”



# Salary/Benefit Budgeting

[see Staff Report Attachment # 13]

- Filled positions budgeted at incumbent's actual salary and benefits plus assumptions
  - Little salary savings derived unless position becomes vacant
- Vacant positions budgeted at 100.0 percent/ 5<sup>th</sup> step plus mid range of health benefits
  - Where most salary savings is derived
- No salary savings factor previously applied
  - More consistent budget to budget
  - Salary savings adds to carryover
  - Difficult for smaller departments
- Recommend budgeting vacant positions for 80.0 percent of the fiscal year



## Salary/Benefit Budgeting (cont.)

- Partial hiring freeze implemented earlier in the fiscal year
  - All vacant positions not resulting in significant negative impact on City services or result in additional costs
  - As positions become vacant, they will continue to be reviewed
- Purpose of hiring freeze
  - Save as much money as possible
  - Create flexibility for unfunding positions in the context of the FY 2009-10 budget



# PERS Volatility Index

[see Staff Report Attachment # 14]

- PERS rates actuarial valuation based on assumptions by CalPERS each year
  - Interest returns
  - Pay rates
  - Employee turnover
  - Retirement trends
- Rate smoothing
  - Amortized over 15 years
  - Established corridor 80% to 120%



## PERS Volatility Index (cont.)

- A measure of Assets to Annual Covered Payroll
- The City's Volatility Index
  - 9.7 Public Safety
  - 5.9 Miscellaneous
- CalPERS investment losses of 26.6 percent
- Estimated Increase to rates in FY 2011-12
  - 8.3 points Public Safety
  - 5.0 points Miscellaneous



# Limited-Period Expenditures

[see Staff Report Attachment # 15]

- Requests/needs of a one-time or limited duration not appropriate as part of the permanent operating budget
- If General Fund related – funded from prior fiscal year carryover balance or reserves
  - Not included as part of the permanent operating budget
  - Not counted in determining the operating balance
- If Other Fund related – funded from the balance available in those funds